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Izone International Ltd.

Financial Statements

February 28, 1990

Price Waterhouse

June 1, 1990

Auditors' Report

To the Shareholders of
Izone International Ltd.

We have examined the balance sheet of Izone International Ltd. as at February 28, 1990 and the statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at February 28, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chartered Accountants

Izone International Ltd.

Balance Sheet

	February 28	
	1990	1989
Assets		
Current assets		
Prepaid expenses	\$ 6,827	\$ 3,713
Inventory, at cost	16,576	6,141
	<u>23,403</u>	<u>9,854</u>
Due from related company (Notes 3 and 8)	53,631	51,765
Investment in mining exploration joint venture (Note 4)	488,897	488,897
Fixed assets, net of accumulated depreciation of \$11,952 (1989 - \$7,749)	12,333	16,689
Equipment under capital lease, net of accumulated amortization of \$2,881 (1989 - \$1,921)	6,730	7,691
Incorporation costs	1,410	1,410
	<u>\$ 586,404</u>	<u>\$ 576,306</u>
Liabilities		
Current liabilities		
Bank indebtedness	\$ 8,167	\$ 902
Accounts payable	106,975	143,268
	<u>115,142</u>	<u>144,170</u>
Due to shareholders (Note 5)	11,085	18,872
Obligation under capital lease (Note 6)	4,096	5,647
	<u>130,323</u>	<u>168,689</u>
Shareholders' Equity		
Share capital (Note 7)		
Authorized		
30,000,000 (1989 - 20,000,000) shares without par value		
Issued		
17,137,512 (1989 - 15,096,165) shares	6,968,480	6,537,162
Deficit	<u>6,512,399</u>	<u>6,129,545</u>
	<u>456,081</u>	<u>407,617</u>
	<u>\$ 586,404</u>	<u>\$ 576,306</u>

Commitments (Note 4)

Approved by the Board

Director

Director


Izone International Ltd.

Statement of Operations and Deficit

Year ended February 28
1990 1989

Expenses

Salaries, wages and consulting fees	\$ 75,038	\$ 129,615
Rent and office	70,551	81,435
Research and development	65,359	19,127
Shareholder information	31,545	24,417
Audit and accounting	26,730	17,093
Legal fees	23,244	28,811
Other	22,604	18,647
Travel and promotion	22,002	85,962
Telephone and telex	20,744	30,052
Depreciation	5,980	5,032
Insurance	2,057	10,373
	<u>365,854</u>	<u>450,564</u>
Loss from operations	365,854	450,564
Cash received on settlement of investment previously written off	<u>-</u>	<u>60,000</u>
Loss before undernoted items	365,854	390,564
Write-off of investment in Izone Corporation	-	16,992
Loss on settlement of court action	<u>17,000</u>	<u>-</u>
	<u>17,000</u>	<u>16,992</u>
Loss for year	382,854	407,556
Deficit, beginning of year	<u>6,129,545</u>	<u>5,721,989</u>
Deficit, end of year	<u>\$6,512,399</u>	<u>\$6,129,545</u>
Loss per share	<u>\$ 0.02</u>	<u>\$ 0.03</u>



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Izone International Ltd.

Statement of Changes in Financial Position

	Year ended February 28	
	1990	1989
Cash provided by (used in) operating activities		
Operations		
Loss for year	\$(382,854)	\$(407,556)
Item not affecting cash - depreciation	5,980	5,032
	<u>(376,874)</u>	<u>(402,524)</u>
Changes in non-cash working capital		
Prepaid expenses	(3,114)	5,520
Inventory	(10,435)	(4,149)
Accounts payable	<u>(36,293)</u>	<u>19,204</u>
	<u>(49,842)</u>	<u>20,575</u>
	<u>(426,716)</u>	<u>(381,949)</u>
Cash provided by (used in) financing activities		
Issue of shares for		
Cash	431,318	518,166
Mineral claims' option payments	-	5,850
Due to shareholders	(7,787)	(20,558)
Obligation under capital lease	(1,550)	(1,298)
Due from related company	<u>(1,866)</u>	<u>(74,150)</u>
	420,115	428,010
Cash provided by (used in) investment activities		
Purchase of fixed assets	(664)	(7,656)
Investment in mining exploration joint venture	<u>-</u>	<u>(38,850)</u>
	<u>(664)</u>	<u>(46,506)</u>
Decrease in cash	(7,265)	(445)
Bank indebtedness, beginning of year	<u>(902)</u>	<u>(457)</u>
Bank indebtedness, end of year	<u>\$ (8,167)</u>	<u>\$ (902)</u>

Izone International Ltd.

Notes to Financial Statements

February 28, 1990

1. Operations and going concern

The Company is primarily involved in the development of water based ozone oxidation reduction technology. As at February 28, 1990, the Company had not commenced commercial production.

The Company has a working capital deficiency of \$91,739 at February 28, 1990. The Company's ability to meet its obligations, including its obligations under the mining exploration joint venture agreement (Note 4), is dependent upon obtaining necessary financing to support its required expenditures until such time as profitable operations are achieved. Subsequent to February 28, 1990, the Company has received \$42,600 on subscriptions for a private placement of shares.

2. Significant accounting policies

Mining exploration joint venture

The investment in the mining exploration joint venture represents the Company's proportionate share of costs. The joint venture's activities are in property exploration and accordingly, the recovery of the cost of mineral claims and the realization of exploration expenditures thereon is dependent upon the success of the exploration program.

Fixed assets and depreciation

Fixed assets are recorded at cost; and depreciation is provided on a straight-line basis over their estimated useful lives.

Leases

Leases have been classified as either capital or operating. A lease which eventually transfers ownership of the leased asset by the end of the lease term is accounted for as if it were an acquisition of an asset and the incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are charged to earnings as incurred. The asset recorded as a capital lease is amortized on a straight-line basis over its estimated useful life.

Loss per share

Loss per share is determined using the weighted average number of shares outstanding during the year.

3. Due from related company

This amount represents net advances due from Adams Exploration Ltd., a company related by common directors and a co-venturer in the mining exploration joint venture. These advances are without interest and have no fixed terms of repayment.

4. Investment in mining exploration joint venture

In 1985, the Company entered into a joint venture agreement with Adams Exploration Ltd. and Clifton Resources Limited to carry out exploration on mineral claims situated in the Kamloops Mining District of British Columbia (Adams Plateau). Under the terms of the joint venture agreement, the companies have agreed to pool certain of their contiguous mineral claims' interests for a period of five years, and each has a one-third interest in the joint venture subject to the retention of certain net smelter return overrides.

Under the terms of the joint venture agreement, the Company was required to make certain cash contributions to the joint venture which remain unpaid at February 28, 1990. Management is disputing certain matters relevant to the application of the joint venture agreement, including the propriety of some of the joint venture expenditures incurred and the validity of certain work programs carried out. The liability, if any, of the Company to make further payments to retain its equal beneficial interest in the joint venture and the underlying mineral claims is not determinable at this date and is therefore not reflected in these financial statements.

5. Due to shareholders

Amounts payable to shareholders are unsecured, non-interest bearing and do not have a fixed repayment schedule.

6. Lease commitments

The future minimum lease payments under operating leases of the Company, together with its obligations under a capital lease (after deduction of interest on the minimum lease payments) are as follows:

Fiscal year	Capital lease	Operating lease
1991	\$2,652	\$12,287
1992	2,652	12,190
1993	1,989	8,868
	<u>7,293</u>	<u>\$33,345</u>
Total minimum lease payments		
	<u>1,646</u>	
Less: Amount representing interest		
	<u>5,647</u>	
Less: Current portion of principal payable		
	<u>1,551</u>	
Obligation under capital lease	<u>\$4,096</u>	

7. Share capital

During the year, the shareholders approved an increase in the authorized share capital to 30,000,000 common shares without par value from 20,000,000.

	Issued	
	Number of shares	Amount
Balance, February 28, 1989	15,096,165	\$6,537,162
Stock options exercised	959,388	253,651
Warrants exercised	13,334	2,667
Issued for cash	<u>1,068,625</u>	<u>175,000</u>
Balance, February 28, 1989	<u>17,137,512</u>	<u>\$6,968,480</u>

Stock options

Stock options have been granted to key employees and directors. The following options were outstanding at February 28, 1990:

Number of shares	Option price	Expiry date
80,389	\$0.37	June 21, 1990
435,223	\$0.18	May 25, 1991
<u>300,000</u>	<u>\$0.50</u>	<u>November 17, 1991</u>
<u>815,612</u>		

Warrants

Warrants were issued in conjunction with private placements of capital stock. The following warrants were outstanding at February 28, 1990:

Number of shares	Warrant price	Expiry date
319,999	\$0.20	April 26, 1990
<u>735,292</u>	<u>\$0.22</u>	<u>July 21, 1990</u>
<u>1,055,291</u>		

8. Related party transactions

In addition to related party transactions and balances disclosed elsewhere in the financial statements, during the year the Company had the following transactions with related parties:

- Shared office services with Adams Exploration Ltd. a company related by way of common directors and as a co-venturer in the mining exploration joint venture.
- Made advances to the company referred to above.

9. Subsequent events

- Pursuant to an agreement dated April 26, 1990 the Company has granted the right to operate the Izone technology in North America, as well as an option of first rights to assume other areas, to Chippendale Fluid Handling Services Ltd., a company owned by a shareholder. Fees to be earned from the operation of the technology are to be distributed to the Company and Chippendale Fluid Handling Services Ltd. on a basis to be agreed upon prior to the commencement of each project. Also pursuant to this agreement the shareholder was granted 200,000 stock options at an exercise price of \$0.57 expiring April 30, 1992.
- Subsequent to February 28, 1990, 60,000 stock options at \$0.18 and 290,000 warrants at \$0.20 were exercised.

